

TENNESSEE GENERAL ASSEMBLY
FISCAL REVIEW COMMITTEE



FISCAL NOTE

HB 1554 - SB 2558

February 7, 2016

SUMMARY OF BILL: Authorizes the Commissioner of the Department of Revenue to consider estimated franchise and excise (F&E) tax payments that resulted in an underpayment for which penalties and interest accrued as filed in a timely manner for purposes of establishing good and reasonable cause for waiver of a delinquency penalty.

Revises the current provisions of Tenn. Code Ann. § 67-4-2015(b) that require taxpayers with a combined F&E tax liability of at least \$5,000 for the current tax year to make 4 equal quarterly payments, to now require taxpayers with a combined F&E tax liability of at least \$5,000, after application of all available F&E tax credits for both the immediately preceding tax year and the current tax year, to make 4 quarterly payments that are not required to be equal.

Requires the minimum amount of each quarterly payment to be the lesser of: 25 percent of the combined F&E tax shown on the tax return for the preceding tax year, as under current law; or 25 percent of 80 percent, instead of 25 percent of 100 percent, of the combined F&E tax liability for the current tax year.

Reduces, from five percent to two percent, the penalty for each month of underpayment of a quarterly estimated tax payment, and reduces the maximum of such penalty that can be assessed, from twenty-five percent to twenty-four percent.

Establishes that this Act shall apply to tax years beginning on or after January 1, 2016.

ESTIMATED FISCAL IMPACT:

**Decrease State Revenue – \$22,881,800/FY15-16
\$11,845,400/FY16-17
\$5,594,800/FY17-18 and Subsequent Years**

The Governor's proposed budget for FY16-17, on page A-40, recognizes a one-time decrease in state revenue to the General Fund in the amount of \$11,845,400.

Assumptions:

- Authorizing the Commissioner of the Department of Revenue to consider estimated F&E tax payments that resulted in an underpayment for which penalties and interest accrued as filed in a timely manner for purposes of establishing good and reasonable

HB 1554 - SB 2558

cause for waiver of a delinquency penalty will not result in a significant impact on total F&E tax collections.

- According to the Department, approximately 2,200 taxpayers will not be required to make quarterly estimated payments as a result of this bill requiring only taxpayers with a combined F&E tax liability of \$5,000 or more, after application of all available F&E tax credits for both the immediately preceding tax year and the current tax year, to make such quarterly payments.
- The resulting decrease in F&E tax collections to the state is estimated to be \$2,641,100 in FY15-16 and \$445,200 in FY16-17. In addition, the proposed change will result in a decrease in collections from penalties and interest due to underpayments of estimated payments of approximately \$104,600 in FY16-17 and \$118,200 in FY17-18 and subsequent years.
- According to the Department, approximately 8,700 taxpayers will be able to reduce their quarterly estimated payments as a result of this bill requiring such payments to equal the lesser of 25 percent of the combined F&E tax shown on the tax return for the preceding tax year, as under current law, or 25 percent of 80 percent, instead of 25 percent of 100 percent, of the combined F&E tax liability for the current tax year.
- The resulting decrease in F&E tax collections to the state is estimated to be \$20,240,700 in FY15-16 and \$6,762,900 in FY16-17. In addition, the proposed change will result in a decrease in collections from penalties and interest due to underpayments of estimated payments of approximately \$222,200 in FY16-17 and \$261,100 in FY17-18 and subsequent years.
- According to the Department, reducing the penalties for underpayments of quarterly estimated tax payments is estimated to result in a decrease in F&E tax collections to the state of approximately \$4,310,500 in FY16-17 and \$5,215,500 in FY17-18 and subsequent years.
- The total decrease in state revenue is estimated to be: \$22,881,800 in FY15-16 (\$2,641,100 + \$20,240,700); \$11,845,400 in FY16-17 (\$445,200 + \$104,600 + \$6,762,900 + \$222,200 + \$4,310,500); and \$5,594,800 in FY17-18 and subsequent years (\$118,200 + \$261,100 + \$5,215,500).
- Any increase in state expenditures for the Department to accomplish the requirements of the proposed legislation will be not significant and can be accommodated within existing resources of the Department without an increased appropriation or a reduced reversion.
- The Governor's Recommended Budget for FY16-17, on page A-40, recognizes a one-time decrease in state revenue to the General Fund of \$11,845,400.

CERTIFICATION:

The information contained herein is true and correct to the best of my knowledge.



Krista M. Lee, Executive Director

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